

**DETROIT COMMUNITY SCHOOLS,  
A PUBLIC SCHOOL ACADEMY**

**FINANCIAL REPORT**

**WITH SUPPLEMENTAL INFORMATION**

**JUNE 30, 2008**

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A Professional Corporation

## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Detroit Community Schools, a Public School Academy

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Detroit Community Schools, as of and for the year ended June 30, 2008, which collectively comprise Detroit Community Schools' basic financial statements as listed in the table of contents. These financial statements are the responsibility of Detroit Community Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Detroit Community Schools as of June 30, 2008, and the respective changes in financial position thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 6, 2008 on our consideration of Detroit Community Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 8 and page 26 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Board of Directors  
Detroit Community Schools, a Public School Academy

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Detroit Community Schools' basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Hungerford & Co.*

November 6, 2008

## **Detroit Community Schools**

### **Management's Discussion and Analysis**

Detroit Community Schools, a Michigan Public School Academy, has the legal standing of a "School District", but will be referred to as "the Academy". This section of the Academy's annual financial report represents our discussion and analysis of the Academy's financial performance during the year ended June 30, 2008. Please read it in conjunction with the Academy's financial statements which immediately follow this section.

#### **Using this Annual Report**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Academy as a whole financially. The Academy's financial statements provide information about the activities of the Academy, and presents both an aggregate view of the Academy's finances and a longer term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, the statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the Academy's operations in more detail than the Academy's financial statements by providing information about the major funds; the General Fund and the Debt Retirement Fund with all other funds presented in one column as nonmajor funds. The remaining statement, the statement of fiduciary net assets, presents financial information about activities for which the Academy acts solely as agent for the benefit of students and parents.

*Management's Discussion and Analysis (MD&A)*  
*(Required Supplemental Information)*

*Academy-wide Financial Statements*  
*Fund Financial Statements*

*Notes to Financial Statements*

*(Required Supplemental Information)*  
*Budgetary Information for the General Fund*

*Other Supplemental Information*

#### **Reporting the Academy as a Whole - Academy-wide Financial Statements**

One of the most important questions asked about the Academy is, "As a whole, what is the Academy's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the Academy's financial statements, report information on the Academy as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting basis used by most private-sector companies. All the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

## **Detroit Community Schools**

### **Management's Discussion and Analysis (continued)**

#### **Reporting the Academy as a Whole - Academy-wide Financial Statements (continued)**

These two statements report the Academy's net assets, the difference between assets and liabilities, as reported in the statement of net assets, as one way to measure the Academy's financial health or financial position. Over time, increases and decreases in the Academy's net assets, as reported in the statement of activities, are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the Academy's operating results.

The Academy generated an increase in net assets of \$46,620 for the current year. The Academy considers this significant because of the huge investments the Academy makes and its continued growth. The State of Michigan uses a blended student count to fund the Academy, so as the enrollment rises, there is a timing lag in the amount of funds provided. We may have more students, but we are not funded 100% for those students. This change from negative to positive is an indication of the leveling of the student population. The Academy's goal is to provide services to our students, not to generate profit as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the Academy.

The statement of net assets and statement of activities report the governmental activities for the Academy, which encompass all of the Academy's services, including instruction, support services, athletics, and food services. Unrestricted State Aid (foundation allowance revenue), and State and Federal grants finance most of these activities.

#### **Reporting the Academy's Most Significant Funds - Fund Financial Statements**

The Academy's fund financial statements provide detailed information about the most significant funds, not the Academy as a whole. Some funds are required to be established by State law. However, the Academy establishes other funds to help it control and manage money or to show it is meeting legal responsibilities for using certain grants, or other money. The governmental funds of the Academy use the following accounting approach:

Governmental funds - All of the Academy's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of operations of the Academy and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Academy's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in a reconciliation.

#### **The Academy as Trustee - Reporting the Academy's Fiduciary Responsibilities**

The Academy is the trustee, or fiduciary, for its student activity funds. All of the Academy's fiduciary activities are reported in the separate statement of fiduciary net assets. We exclude these activities from the Academy's other financial statements because the Academy cannot use these assets to finance its operations. The Academy is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

# Detroit Community Schools

## Management's Discussion and Analysis (continued)

### The Academy as a Whole

Recall that the statement of net assets provides the perspective of the Academy as a whole. Table I provides a summary of the Academy's net assets as of June 30, 2008:

Table I	Governmental Activities (in millions)	
	2007	2008
<b>Assets</b>		
Current and other assets	\$ 3.36	\$ 3.59
Capital assets -		
Net of accumulated depreciation	<u>11.59</u>	<u>11.11</u>
Total assets	<u>\$ 14.95</u>	<u>\$ 14.70</u>
<b>Liabilities</b>		
Current liabilities	\$ 2.01	\$ 2.45
Long-term obligations	<u>13.05</u>	<u>12.31</u>
Total liabilities	<u>\$ 15.06</u>	<u>\$ 14.76</u>
<b>Net Assets</b>		
Invested in capital assets -		
Net of related debt	\$ (2.02)	\$ (1.94)
Restricted for debt service	1.06	1.21
Unrestricted	<u>0.85</u>	<u>0.67</u>
Total net assets	<u>\$ (0.11)</u>	<u>\$ (0.06)</u>

The above analysis focuses on the net assets (see Table I). The change in net assets (see Table 2) of the Academy's governmental activities is discussed below. The Academy's net assets were \$ (.06) million at June 30, 2008. Capital assets, net of related debt, compares the original cost, less depreciation of the Academy's capital assets to long-term obligations which was used to finance the acquisition of those assets.

The \$.67 million in unrestricted net assets represents the *accumulated* results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year. During the year ended June 30, 2006, the Academy acquired and completed renovation of buildings to be used for future educational facilities. The \$1.94 deficit in net capital assets is the result of the prefunding of interest payments on the bonds for 2005, 2006 and part of 2007, and the debt service reserve required under the bond agreement.

# Detroit Community Schools

## Management's Discussion and Analysis (continued)

### The Academy as a Whole (continued)

The results of this year's operations for the Academy as a whole are reported in the statement of activities (see Table 2), which shows the changes in net assets for year ended June 30, 2008.

Table 2	Governmental Activities (in millions)	
	2007	2008
<b>Revenues</b>		
Program revenue:		
Charges for services	\$ 0.02	\$ 0.01
Grants and categoricals	0.90	0.78
General revenue:		
State foundation allowance	5.65	6.78
Other	0.14	0.12
Total revenues	\$ <u>6.71</u>	\$ <u>7.69</u>
<b>Functional/Program Expenses</b>		
Instruction	\$ 2.72	\$ 3.14
Support services	3.16	3.48
Food services	0.16	0.15
Athletics	0.14	0.13
Interest on long term obligations	0.79	0.75
Total expenses	\$ <u>6.97</u>	\$ <u>7.65</u>
<b>Increase (Decrease) in Net Assets</b>	\$ <u>(0.26)</u>	\$ <u>0.04</u>

As reported in the statement of activities, the cost of all of our *governmental* activities this year was \$6.85 million vs \$6.05 million last year. Certain activities were partially funded from those individuals that benefited from the programs or by other governments and organizations that subsidized certain programs with grants and categoricals (\$.78 million current and \$.9 million prior). We paid for the remaining "public benefit" portion of our government activities with \$6.78 million in 2008 and \$5.65 million in 2007 in State Foundation Allowance, and with our other revenues, such as tuition and general entitlements.

### The Academy's Funds

As we noted earlier, the Academy uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the Academy is being accountable for the resources taxpayers, via the State Foundation, and others provide to it and may provide more insight into the Academy's overall financial health.

The Academy's general fund experienced a decrease of \$.14 million generally due to additional \$.14 million in capital expenditures.



## Detroit Community Schools

### Management's Discussion and Analysis (continued)

#### The Academy's Funds (continued)

The Academy started a debt retirement fund in 2006 to account for the resources to retire its bonds. As part of the bond issue, \$.85 million is to be held in a debt retirement reserve fund. This reserve is included in the debt retirement fund. Beginning in 2007, the general fund began to transfer funds to the debt retirement fund to pay amounts due under the bond agreement.

Our special revenue funds, food service and athletics, continue to require general fund support because of their small size. Revenues in both areas have increased over the prior years.

#### General Fund Budgetary Highlights

Over the course of the year, the Academy can revise its budget as it attempts to deal with changes in revenues and expenditures. State law requires that the budget be amended to ensure the expenditures do not exceed appropriations. A schedule showing the Academy's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements. There were significant changes to the original budget because of the increase in students and expenditures in connection with activities related to the acquisition of facilities and equipment.

#### Capital Asset and Debt Administration

##### *Capital Assets*

At June 30, 2008, the Academy had \$11.11 million invested in a broad range of capital assets, including land and building, furniture and equipment, computers and vehicles. This amount represents a net decrease (including additions and disposals) of approximately \$.48 million from last year.

	2007	2008
Land and construction in progress	\$ 132,754	\$ 188,521
Building and improvements	9,505,440	9,517,840
Land improvements	83,799	128,069
Furniture and equipment	2,562,519	2,597,670
Vehicles	109,296	109,296
Total capital assets	12,393,808	12,541,396
Less accumulated depreciation	802,375	1,426,056
Net capital assets	\$ 11,591,433	\$ 11,115,340

We present more detailed information about our capital assets in the notes to the financial statements.

Management's Discussion and Analysis (continued)

Capital Asset and Debt Administration (continued)

***Debts***

The Academy had \$.74 and \$1.26 million in current and \$12.3 and \$13.05 million in long-term obligations as of June 30, 2008 and 2007, respectively. Various financing agreements were issued during the year. One state aid note for \$1.2 million was issued to help fund current activities.

**Economic Factors and Next Year's budgets and Rates**

Based on early enrollment data for the subsequent school year, we anticipate that the fall student count will be greater than the estimates used in creating the 2008 fiscal year budget. Once the final student count and related pupil funding is validated, the budget will be amended. State law *requires* the Academy to amend the budget if actual Academy resources are not sufficient to fund the original appropriation.

Since the Academy's revenue is heavily dependent on State funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to school districts.

**Contacting the Academy's Financial Management**

This financial report is designed to provide the Academy's customers, investors and creditors with a general overview of the Academy's finances and to demonstrate the Academy's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Business Office, 12675 Burt Rd. Detroit, MI. 48223

# DETROIT COMMUNITY SCHOOLS

## STATEMENT OF NET ASSETS

June 30, 2008

	<u>Governmental Activities</u>
<b>ASSETS</b>	
<b>CURRENT ASSETS</b>	
Cash	\$ 1,543,362
Accounts receivable	22,436
Due from other governmental units	1,329,716
Prepaid expenditures	<u>693,747</u>
Total current assets	<u>3,589,261</u>
<b>NONCURRENT ASSETS</b>	
Capital assets	12,541,396
Less accumulated depreciation	<u>(1,426,056)</u>
Total noncurrent assets	<u>11,115,340</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>14,704,601</u></b>
<b>LIABILITIES AND NET ASSETS</b>	
<b>LIABILITIES</b>	
<b>CURRENT LIABILITIES</b>	
Accounts payable	\$ 509,834
Notes payable (Note 6)	895,900
Long-term obligations, due within one year (Note 7)	739,908
Payroll withholdings	13,842
Accrued expenditures	156,019
Salaries payable	50,140
Deferred revenue (Note 5)	<u>86,349</u>
Total current liabilities	<u>2,451,992</u>
<b>NONCURRENT LIABILITIES</b>	
Long-term obligations, due in more than one year (Note 7)	<u>12,312,377</u>
<b>NET ASSETS</b>	
Investment in capital assets, net of related debt	(1,936,945)
Restricted for debt service	1,208,344
Unrestricted	<u>668,833</u>
Total Net Assets	<u>(59,768)</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ <u>14,704,601</u></b>

See notes to financial statements.

# DETROIT COMMUNITY SCHOOLS

## STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2008

FUNCTIONS/PROGRAMS	<u>Expenses</u>	<u>Program Revenues</u>		<u>Governmental</u>
		<u>Charges for</u>	<u>Operating</u>	<u>Activities</u>
		<u>Services</u>	<u>Grants/</u>	<u>Net(Expense)</u>
			<u>Contributions</u>	<u>Revenue and</u>
				<u>Changes in Net</u>
				<u>Assets</u>
<b>PRIMARY GOVERNMENT,</b>				
<b>GOVERNMENTAL ACTIVITIES</b>				
Instruction	\$ 3,136,683	\$ 0	\$ 679,863	\$ (2,456,820)
Support services	3,481,088	0	0	(3,481,088)
Food service activities	153,219	721	99,638	(52,860)
Athletics	126,961	10,536	0	(116,425)
Interest on long-term obligations	747,789	0	0	(747,789)
<b>TOTAL GOVERNMENTAL</b>				
<b>ACTIVITIES</b>	<b>\$ 7,645,740</b>	<b>\$ 11,257</b>	<b>\$ 779,501</b>	<b>(6,854,982)</b>
<b>GENERAL REVENUES</b>				
State aid, unrestricted				6,783,442
Other income				118,160
<b>TOTAL GENERAL REVENUES</b>				<b>6,901,602</b>
<b>CHANGE IN NET ASSETS</b>				<b>46,620</b>
NET ASSETS, July 1, 2007				(106,388)
<b>NET ASSETS, June 30, 2008</b>				<b>\$ (59,768)</b>

See notes to financial statements.

# DETROIT COMMUNITY SCHOOLS

## GOVERNMENTAL FUNDS BALANCE SHEET

June 30, 2008

	<u>General Fund</u>	<u>Debt Retirement Fund</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total</u>
<b>ASSETS</b>				
Cash and investments	\$ 337,073	\$ 1,206,289	\$ 0	\$ 1,543,362
Accounts receivable	20,381	2,055	0	22,436
Due from other governmental units	1,329,716	0	0	1,329,716
Prepaid expenditures	58,997	0	0	58,997
<b>TOTAL ASSETS</b>	<b>\$ 1,746,167</b>	<b>\$ 1,208,344</b>	<b>\$ 0</b>	<b>\$ 2,954,511</b>
<b>LIABILITIES AND FUND BALANCE</b>				
<b>LIABILITIES</b>				
Accounts payable	\$ 509,834	\$ 0	\$ 0	\$ 509,834
State aid note	895,900	0	0	895,900
Payroll withholdings	13,842	0	0	13,842
Accrued expenditures	43,858	0	0	43,858
Salaries payable	50,140	0	0	50,140
Deferred revenue	86,349	0	0	86,349
<b>TOTAL LIABILITIES</b>	<b>1,599,923</b>	<b>0</b>	<b>0</b>	<b>1,599,923</b>
<b>FUND BALANCE</b>				
Reserved for inventories and and prepaid expenses	58,997	0	0	58,997
Unreserved Undesignated	87,247	1,208,344	0	1,295,591
<b>TOTAL FUND BALANCE</b>	<b>146,244</b>	<b>1,208,344</b>	<b>0</b>	<b>1,354,588</b>
<b>TOTAL LIABILITIES AND AND FUND BALANCE</b>	<b>\$ 1,746,167</b>	<b>\$ 1,208,344</b>	<b>\$ 0</b>	<b>\$ 2,954,511</b>

See notes to financial statements.

# DETROIT COMMUNITY SCHOOLS

## GOVERNMENTAL FUNDS RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS TO NET ASSETS

June 30, 2008

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<b>TOTAL FUND BALANCES - GOVERNMENTAL FUNDS</b>	<b>\$</b>	<b>1,354,588</b>
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Amounts reported for governmental activities in the statement  
of net assets are different because

Capital assets used in governmental activities are not financial  
resources and are not reported in the governmental funds.

The cost of the capital assets is	12,541,396
Accumulated depreciation is	(1,426,056)

Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds:	(13,052,285)
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The cost of issuance of the bonds is an expenditure in the  
governmental funds, but these costs are capitalized and  
spread over the life of the debt in the statement of net assets.

Cost of issuance	\$ 705,727	
Amortization	<u>(70,977)</u>	634,750

Interest in accrued expenses is not included as a liability in the governmental funds	<u>(112,161)</u>
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<b>TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES</b>	<b>\$</b>	<b><u>(59,768)</u></b>
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# DETROIT COMMUNITY SCHOOLS

## GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

For the Year Ended June 30, 2008

	<u>General Fund</u>	<u>Debt Retirement Fund</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Totals</u>
<b>REVENUES</b>				
Local sources	\$ 85,379	\$ 32,781	\$ 11,257	\$ 129,417
State sources	7,067,047	0	6,721	7,073,768
Federal sources	406,169	0	92,917	499,086
<b>TOTAL REVENUES</b>	<u><b>7,558,595</b></u>	<u><b>32,781</b></u>	<u><b>110,895</b></u>	<u><b>7,702,271</b></u>
<b>EXPENDITURES</b>				
Instruction	3,102,093	0	0	3,102,093
Support services	2,860,872	1,500	0	2,862,372
Food service activities	0	0	153,219	153,219
Athletics	0	0	126,961	126,961
Debt service				
Principal	554,930	0	0	554,930
Interest	74,824	672,965	0	747,789
Capital outlay	138,268	0	9,320	147,588
<b>TOTAL EXPENDITURES</b>	<u><b>6,730,987</b></u>	<u><b>674,465</b></u>	<u><b>289,500</b></u>	<u><b>7,694,952</b></u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u><b>827,608</b></u>	<u><b>(641,684)</b></u>	<u><b>(178,605)</b></u>	<u><b>7,319</b></u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Prior period adjustments, non material	(5,290)	0	0	(5,290)
Operating transfers				
Incoming	0	787,343	178,605	965,948
Outgoing	(965,948)	0	0	(965,948)
Total Other Financing Sources (Uses)	<u>(971,238)</u>	<u>787,343</u>	<u>178,605</u>	<u>(5,290)</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u><b>(143,630)</b></u>	<u><b>145,659</b></u>	<u><b>0</b></u>	<u><b>2,029</b></u>
FUND BALANCE, July 1, 2007	<u>289,874</u>	<u>1,062,685</u>	<u>0</u>	<u>1,352,559</u>
<b>FUND BALANCE, June 30, 2008</b>	<u><b>\$ 146,244</b></u>	<u><b>\$ 1,208,344</b></u>	<u><b>\$ 0</b></u>	<u><b>\$ 1,354,588</b></u>

See notes to financial statements.

HUNGERFORD & CO.

# DETROIT COMMUNITY SCHOOLS

## GOVERNMENTAL FUNDS RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES For the Year Ended June 30, 2008

<b>NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS</b>	<b>\$</b>	<b>2,029</b>
Amounts reported for governmental activities in the statement of activities are different because		
Governmental funds reported capital outlays as expenditures, but in the statement of activities, these costs are allocated over their estimated useful lives as depreciation		
Capital outlay	\$ 147,588	
Depreciation expense	<u>(623,681)</u>	
Total		(476,093)
Revenues reported in the statement of activities that do not provide current financial resources and are not reported as revenues in the governmental funds		
Prior year	\$ (9,911)	
Current year	<u>0</u>	(9,911)
The cost of issuance of the bonds was an expenditure in the governmental funds, but these costs are capitalized and spread over the life of the debt in the statement of net assets		
		(24,335)
Repayment of loan principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term obligations)		
		<u>554,930</u>
<b>CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES</b>	<b>\$</b>	<b><u>46,620</u></b>



# DETROIT COMMUNITY SCHOOLS

## FIDUCIARY FUNDS STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2008

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Agency Fund  
Internal  
Activities

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### ASSETS

Cash

\$ 29,655

### LIABILITIES

Accounts payable

\$ 20,207

Due to student organizations

9,448

### TOTAL LIABILITIES

\$ 29,655

# DETROIT COMMUNITY SCHOOLS

## NOTES TO FINANCIAL STATEMENTS

June 30, 2008

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### NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accompanying financial statements have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

#### REPORTING ENTITY

The Academy has a contract with the Saginaw Valley State University Board of Control which expires on June 30, 2012. The Academy governed by a Board of Directors (Board) appointed by the University. The Board receives funding from local, state and federal sources and must comply with the requirements of these funding source entities. However, the Board is not included in any other governmental "reporting entity" as defined in GASB pronouncements. It is considered to be a potential component unit of the University because the University appoints the Board of the Academy, but has no financial benefit or burden relationship with the Academy.

#### ACADEMY-WIDE AND FUND FINANCIAL STATEMENTS

The **academy-wide** financial statements include the statement of net assets and the statement of activities. These statements report all nonfiduciary activities of the primary government. Government activities are generally supported by taxes and intergovernmental revenues, and are reported separately from business-type activities which are financed in whole or in part by fees charged to external parties for goods and services. The focus of the district-wide statements is the primary government.

The **statement of net assets** presents the reporting entity's nonfiduciary assets and liabilities, with the difference reported as net assets.

The **statement of activities** demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments and other items not properly included among program revenues are reported as general revenues.

Separate financial statements are provided for governmental and fiduciary funds, even though the latter is excluded from the district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

**DETROIT COMMUNITY SCHOOLS**

**NOTES TO FINANCIAL STATEMENTS**

June 30, 2008

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**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)**

**MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION**

**Academy-wide financial statements**

The academy-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses recorded when a liability is incurred, regardless of the timing of related cash flows. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated for the academy-wide financial statements.

**Governmental fund financial statements**

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Unrestricted State aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Fiduciary fund statements also are reported using the economic resources measurement focus and the accrual basis of accounting.

**Financial statement presentation**

The Academy reports the following major governmental funds:

**The General Fund** is the District's primary operating fund. It accounts for all financial resources, except those required to be accounted for in another fund.

For capital project activities funded with bonds issued after May 1, 1994, the Academy has complied with the applicable provisions of section 1351a of the State of Michigan School Code.

**DETROIT COMMUNITY SCHOOLS**  
**NOTES TO FINANCIAL STATEMENTS**

June 30, 2008

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**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)**

**MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION**

**Financial statement presentation (continued)**

**The Debt Retirement Fund** accounts for the resources accumulated for the retirement of general long-term debt principal, interest and related costs.

In addition, the Academy reports the following fund types:

**Special Revenue Funds** account for specific revenue sources that are legally restricted to expenditure for specified purposes. The Athletic Activities and School Lunch are special revenue funds.

**Fiduciary funds** are used to account for assets held by the Academy in a trustee capacity or as an agent. Fiduciary Fund net assets and results of operations are not included in the government-wide statements. Agency funds are custodial in nature and do not involve measurement of results of operations.

The Academy maintains one fiduciary fund. The Internal Activities represents the activities of the student and parent groups for school and related purposes and is considered an agency fund.

**ASSETS, LIABILITIES AND NET ASSETS/FUND BALANCE**

**Cash and cash equivalents** include cash on hand and in local banks. Cash and **investments** are reported at fair value.

**Receivables** consist primarily of expenditure refunds and amounts due from other government units.

The State of Michigan uses a foundation grant approach which provides for a specific annual amount of revenue per student based on a statewide formula. The allowance is based on the pupil membership counts taken in February and September 2007.

Federal grant and certain State categorical funds are considered to be earned to the extent of expenditures made under their provisions and, accordingly, when such funds are received they are recorded as deferred revenue until earned. Amounts receivable are reported as due from other governmental units.

**Inventories** are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are expensed using the consumption method. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as **prepaid expenditures** in both the district-wide and governmental fund financial statements. The cost of issuance of long-term obligations, which is only recorded in the district-wide financial statements is being amortized on a straight-line basis over the life of the related obligation.

# DETROIT COMMUNITY SCHOOLS

## NOTES TO FINANCIAL STATEMENTS

June 30, 2008

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### NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

#### ASSETS, LIABILITIES AND NET ASSETS/FUND BALANCE (continued)

**Capital Assets**, which include land, buildings, equipment, and vehicles, are defined by the government as assets with an initial individual or aggregate cost of more than \$500. These assets are recorded at cost. Donated capital assets are recorded at fair market value at the date of donation. The Academy does not have infrastructure-type assets.

Capital assets are depreciated using the straight-line method over the following useful lives:

Land improvements	15-20	Years
Buildings and improvements	20-50	Years
Vehicles	5	Years
Furniture and equipment	5-15	Years

**Long-term Obligations** are reported as liabilities in the district-wide financial statements. Bond issuance costs, premiums and discounts, if material, are deferred and amortized over the life of the bonds using the effective interest method.

The difference between assets and liabilities is **Net Assets** on the district-wide and fiduciary fund financial statements, and **Fund Balance** on the governmental fund financial statements. Net assets are reported in three categories.

**Investment in capital assets, net of related debt** as reported in the district-wide financial statements, consists of capital assets, net of accumulated depreciation and further reduced by the outstanding balances of notes that are attributed to the acquisition, construction or improvement of those assets.

**Restricted** for specific use net assets consist of assets that have externally imposed constraints placed on them through regulations imposed by other governments.

**Unrestricted** net assets consists of assets that do not meet the two preceding criteria.

**Reservations** of fund balance in the governmental fund financial statements represent amounts that are not available for appropriation. **Designations** of fund balance represent tentative management plans that are subject to change.

### NOTE 2 BUDGETARY INFORMATION

The Academy is required by state law to adopt an annual budget on a basis consistent with generally accepted accounting principles for the general and special revenue funds. Prior to July 1, the budget is legally adopted by the Board of Directors. Once approved, the budget can be amended by a majority of the Board. Budgets are passed at the function level and controlled by management at the object level. The last amendment to the budget was adopted on June 25, 2008.

# DETROIT COMMUNITY SCHOOLS

## NOTES TO FINANCIAL STATEMENTS

June 30, 2008

### NOTE 2 BUDGETARY INFORMATION (continued)

Encumbrances are not liabilities and, therefore, are not recorded as expenditures until the receipt of materials or services. For budgetary purposes, appropriations lapse at year-end and outstanding encumbrances, if any, are expropriated in the next year. Encumbrances outstanding at the end of the year are reported as reservations of fund balance. There were no encumbrances outstanding at year end.

**Excess of Expenditures Over Appropriations in Budgeted Funds** - During the year, the Academy incurred expenditures in certain budgeted funds which were in excess of the amounts appropriated, as follows:

Fund	Total Appropriations	Amount of Expenditures	Budget Variance
General Fund - Instruction			
Basic Programs	\$ 2,685,760	\$ 2,712,571	\$ (26,811)
General Fund - Support			
Services - General Administration	\$ 508,552	\$ 514,646	\$ (6,094)

### NOTE 3 CASH AND INVESTMENTS

State laws authorize the Academy to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have an office in Michigan; U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles.

School District cash is subject to different types of risk. This Academy is subject to risk as described below.

**Custodial credit risk of bank deposits** is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. The Academy only uses financial institutions which are evaluated to have an acceptable risk level. The FDIC insures a limited amount of the Academy's deposits. It is impractical for the Academy to have all deposits insured. At year end, the Academy had \$1,661,382 in funds deposited at banks, of which \$1,435,831 was uninsured and uncollateralized.

# DETROIT COMMUNITY SCHOOLS

## NOTES TO FINANCIAL STATEMENTS

June 30, 2008

### NOTE 4 CAPITAL ASSETS

	Balance July 1, 2007	Additions	Disposals and adjustments	Balance June 30, 2008
Capital assets not being depreciated				
Land and improvements	\$ 132,754	\$ 55,767	\$ 0	\$ 188,521
Capital assets being depreciated				
Building and improvements	\$ 9,505,440	\$ 12,400	\$ 0	\$ 9,517,840
Land improvements	83,799	44,270	0	128,069
Furniture and equipment:				
Furniture and equipment	1,900,361	31,533	0	1,931,894
Computers	662,158	3,618	0	665,776
Total furniture and equipment	2,562,519	35,151	0	2,597,670
Vehicles	109,296	0	0	109,296
<b>Total capital assets being depreciated</b>	<b>\$ 12,261,054</b>	<b>\$ 91,821</b>	<b>\$ 0</b>	<b>\$ 12,352,875</b>
Accumulated depreciation				
Building and improvements	\$ 294,068	\$ 323,971	\$ 0	\$ 618,039
Land improvements	2,524	6,769	0	9,293
Furniture and equipment:				
Furniture and equipment	269,136	151,185	0	420,321
Computers	172,142	125,816	0	297,958
Total furniture and equipment	441,278	277,001	0	718,279
Vehicles	64,505	15,940	0	80,445
<b>Total accumulated depreciation</b>	<b>\$ 802,375</b>	<b>\$ 623,681</b>	<b>\$ 0</b>	<b>\$ 1,426,056</b>
Net capital assets being depreciated	\$ 11,458,679	\$ -531,860	\$ 0	\$ 10,926,819
<b>Net capital assets</b>	<b>\$ 11,591,433</b>	<b>\$ -476,093</b>	<b>\$ 0</b>	<b>\$ 11,115,340</b>

**DETROIT COMMUNITY SCHOOLS**

**NOTES TO FINANCIAL STATEMENTS**

June 30, 2008

**NOTE 4 CAPITAL ASSETS (continued)**

Depreciation expense was charged to activities of the District as follows:

Governmental activities:

Instruction	\$ 34,590
Support services	<u>589,091</u>
Total governmental activities	<u>\$ 623,681</u>

**NOTE 5 DEFERRED REVENUE**

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Grants and categorical aid payments received prior to meeting all eligibility requirements	\$ <u>0</u>	\$ <u>86,349</u>

**NOTE 6 NOTES PAYABLE**

**State Aid Notes**

The Academy issued a State Aid note for \$710,300 for additional cash flow purposes. Payments of approximately \$372,000, including interest at 5.50%, were required in July and August 2007. This note was refinanced in August 2007 (see below).

The Academy issued a State Aid note for \$1,200,000 for additional cash flow purposes. Payments of approximately \$72,600, including interest at 5.50%, are required from October 2007 through June 2008. Two additional payments of \$300,000 plus interest are required in July and August 2008.

Total interest included in support service is \$73,499. Total interest including long-term was \$821,288.

**NOTE 7 LONG-TERM OBLIGATIONS**

The Academy issues bonds, notes and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the Academy.

During the year ended June 30, 2003, the Academy purchased three vans for a cost of approximately \$75,000 by issuing long-term debt. Each of the three notes was for \$19,972 and requires payments of approximately \$384 including interest at 5.9%. The notes matured in March 2008.



# DETROIT COMMUNITY SCHOOLS

## NOTES TO FINANCIAL STATEMENTS

June 30, 2008

### NOTE 7 LONG-TERM OBLIGATIONS (continued)

In August 2005, the District issued \$11,865,000 of Public School Academy Revenue Bonds for the refinancing and construction of its future facilities. Significant details regarding this issue are as follows:

Description	Final Payment Due	Interest Rate	Annual Principal (000)	Ending Outstanding
2005 Serial bonds	November 2035	5.0 - 5.75%	\$185 - \$810	\$ 11,865,000

The Academy entered into an agreement for \$350,490 of computer equipment to be put in service July 1, 2006 which is, in essence, a financing arrangement. The agreement requires a down payment of \$100,000, and 3 additional annual payments of \$90,800. Interest has been computed at 4.23%. This agreement matures in 2009.

The Academy entered into a lease agreement for \$1,794,643 to finance certain equipment with a cost of \$1,845,903, which is, in essence, a financing arrangement. The terms are as follows:

Year Ended:	
2009	\$ 503,897
2010	503,897
2011	136,752
	<u>1,144,546</u>
Amount representing interest	<u>(76,833)</u>
Present value of minimum lease payments	\$ <u>1,067,713</u>

During the year ended June 30, 2007, the Academy purchased a snow plow for a cost of approximately \$30,000 by issuing long-term debt. This \$30,000 note requires payments of approximately \$ 600 including interest at 7.25%. The note matures in November 2011.

During the year ended June 30, 2007, the Academy entered into an agreement with the City of Detroit Water Department to pay two liabilities over a long-term period in the amount of approximately \$3,000 and \$38,800. The agreements, which required no interest, required a 50% down payment plus payments of \$83 over 18 months and \$787 over 24 months. The agreements mature in January 2009 and July 2009, respectively.

# DETROIT COMMUNITY SCHOOLS

## NOTES TO FINANCIAL STATEMENTS

June 30, 2008

### NOTE 7 LONG-TERM OBLIGATIONS (continued)

Long-term obligation activity can be summarized as follows:

	Notes
Beginning balance	\$ 13,607,215
Additions	0
Reductions	(554,930)
Ending balance	13,052,285
Amount due within one year	(739,908)
Amount due in more than one year	\$ 12,312,377

Annual debt service requirements to maturity for the above governmental note obligations are as follows:

	Principal	Interest	Total
2009	\$ 739,908	\$ 723,134	\$ 1,463,042
2010	681,702	681,665	1,363,367
2011	347,821	649,992	997,813
2012	217,854	637,692	855,546
2013	225,000	625,211	850,211
2013-2017	1,350,000	2,912,063	4,262,063
2018-2022	1,775,000	2,473,481	4,248,481
2023-2027	2,330,000	1,896,045	4,226,045
2028-2032	3,080,000	1,124,987	4,204,987
2033-2036	2,305,000	203,694	2,508,694
	\$ 13,052,285	\$ 11,927,964	\$ 24,980,249

### NOTE 8 RISK MANAGEMENT

The Academy is exposed to various risks of loss related to torts; theft of, damage to and the destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Academy has purchased commercial insurance for all claims. Settled claims relating to the commercial insurance have not exceeded insurance coverage since inception.

#### Federal programs

The Academy participates in numerous federal grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the Academy has not complied with the rules and regulations governing the grants, refunds of any money received may be required and collectability of any receivable at June 30 may be impaired. In the opinion of the Academy, there are no significant liabilities relating to compliance with the rules and regulations governing the grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

# DETROIT COMMUNITY SCHOOLS

## NOTES TO FINANCIAL STATEMENTS

June 30, 2008

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### NOTE 9 DEFINED BENEFIT PENSION PLAN AND POST RETIREMENT BENEFITS

The Academy provides pension benefits for substantially all of its employees through the Michigan Public School Employees' Retirement System Pension Plan (MPERS), a cost-sharing, multiple employer public employee retirement system. MPERS provides retirement, survivor and disability benefits to plan members and their beneficiaries. MPERS issues a publicly available financial report which includes financial statement and required supplementary information. A copy of the report may be obtained by writing to MPERS at 7150 Harris Drive, P.O. Box 30171, Lansing, Michigan 48909-7671.

State legislation required that the Academy contribute 17.74% of covered payroll from July through September 2007 and 16.72% from October 2007 through June 2008. No employee contributions are required. Expenditures under this plan amounted to approximately \$445,000, \$355,000 and \$199,000 for the years ended June 30, 2008, 2007 and 2006, respectively.

Under the MPERS Act, all retirees have the option of continuing health, dental and vision coverage. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for health, dental and vision coverages.

On or after January 1, 1987 and before January 1, 1990, a MPERS member may have elected to contribute 4 percent of gross wages on a tax deferred basis to a "member investment plan" (MIP) that qualifies them for additional benefits. For these members, the contribution rate for wages received January 1, 1990 and later is permanently reduced to 3.9 percent. Employees first hired on or after January 1, 1990 will automatically be included in the MIP program with a graduated contribution rate of 3 percent to 4.3 percent of all wages. Two other differences between the MIP plan and the basic plan are that MIP members can retire at any age with thirty years of credited service or at age 60 with five years of service and the final average compensation period used is 3 years.

### NOTE 10 SUBSEQUENT EVENTS

The Academy issued a State Aid note for \$1,800,000 for additional cash flow purposes in July 2008. The note requires monthly payments of \$100,000 from October 2008 through May 2009 plus a payment of \$395,000 in June 2009 and a payment of \$661,420 in July 2009. The note bears interest at 3.10%.

In July, 2008 the Academy entered into a lease-purchase agreement for the acquisition of a modular building with a cost of \$415,000. The arrangement calls for interest only payments for two years and monthly payments of approximately \$12,000 thereafter.

# DETROIT COMMUNITY SCHOOLS

## BUDGETARY COMPARISON SCHEDULE

### GENERAL FUND

For the Year Ended June 30, 2008

	Original Budget	Final Amended Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
<b>REVENUES</b>				
Local sources	\$ 33,900	\$ 68,984	\$ 85,379	\$ 16,395
State sources	6,804,188	7,155,422	7,067,047	(88,375)
Federal sources	379,524	553,912	406,169	(147,743)
<b>TOTAL REVENUES</b>	<b>7,217,612</b>	<b>7,778,318</b>	<b>7,558,595</b>	<b>(219,723)</b>
<b>EXPENDITURES</b>				
Instruction				
Basic programs	2,392,850	2,685,760	2,712,571	(26,811)
Added needs	483,752	437,618	391,044	46,574
Support services				
Pupil services	105,675	453,575	451,960	1,615
Instructional staff	304,574	289,323	222,081	67,242
General administration	410,126	508,552	514,646	(6,094)
School administration	585,000	432,023	430,488	1,535
Business services	375,925	364,570	361,053	3,517
Operation and maintenance	734,000	741,450	732,543	8,907
Pupil transportation	15,750	23,350	22,745	605
Central	91,800	151,791	144,633	7,158
Community services	5,453	7,500	5,031	2,469
Other facilities improvements	70,000	113,500	112,438	1,062
Debt service	621,492	648,150	629,754	18,396
<b>TOTAL EXPENDITURES</b>	<b>6,196,397</b>	<b>6,857,162</b>	<b>6,730,987</b>	<b>126,175</b>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<b>1,021,215</b>	<b>921,156</b>	<b>827,608</b>	<b>(93,548)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Prior period adjustments, non material	(10,000)	(8,000)	(5,290)	2,710
Operating transfers out	(999,705)	(944,064)	(965,948)	(21,884)
<b>Total Other Financing Sources (Uses)</b>	<b>(1,009,705)</b>	<b>(952,064)</b>	<b>(971,238)</b>	<b>(19,174)</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>\$ 11,510</b>	<b>\$ (30,908)</b>	<b>(143,630)</b>	<b>\$ (112,722)</b>
<b>FUND BALANCE, July 1, 2007</b>			<b>289,874</b>	
<b>FUND BALANCE, June 30, 2008</b>			<b>\$ 146,244</b>	

See notes to financial statements.

**DETROIT COMMUNITY SCHOOLS**  
OTHER SUPPLEMENTAL INFORMATION

NONMAJOR GOVERNMENTAL FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

June 30, 2008

		Special Revenue Funds		
		Athletic Activities	School Lunch	Total
<b>REVENUES</b>				
Local		\$ 10,536	\$ 721	\$ 11,257
State		0	6,721	6,721
Federal		0	92,917	92,917
<b>TOTAL REVENUES</b>		<b>10,536</b>	<b>100,359</b>	<b>110,895</b>
<b>EXPENDITURES</b>				
Current				
Food services		0	153,219	153,219
Athletics		136,281	0	136,281
<b>TOTAL EXPENDITURES</b>		<b>136,281</b>	<b>153,219</b>	<b>289,500</b>
Excess of revenues over (under) expenditures		(125,745)	(52,860)	(178,605)
Other Financing Sources, transfer in		125,745	52,860	178,605
<b>NET CHANGE IN FUND BALANCES</b>		<b>0</b>	<b>0</b>	<b>0</b>
FUND BALANCES, July 1, 2007		0	0	0
<b>FUND BALANCES, June 30, 2008</b>		<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>

See notes to financial statements.

## A Professional Corporation

### REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors  
Detroit Community Schools, a Public School Academy

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Detroit Community Schools, as of and for the year ended June 30, 2008, which collectively comprise Detroit Community Schools' basic financial statements as listed in the table of contents and have issued our report thereon dated November 6, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Detroit Community Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Detroit Community Schools' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Detroit Community Schools' internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Detroit Community Schools' ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Detroit Community Schools' financial statements that is more than inconsequential will not be prevented or detected by Detroit Community Schools' internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Detroit Community Schools' internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Detroit Community Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



November 6, 2008